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Argentina's Labor Markets in an Era of Adjustment

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Changing Argentina's structure of production requires fundamental reform of the labor market with regard to wage policies and the extent of government intervention. It will also require adequate financing during the transition period to compensate the potential losers from structural adjustment who might otherwise prevent its successful implementation.

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This paper — a product of the Macroeconomic Adjustment and Growth Division, Country Economics Department — is part of a larger effort in PRE aimed at identifying typical labor market policies in LDCs, specifically those affecting wage flexibility and the intersectoral labor mobility. Copies are available free from the World Bank, 1818 H Street NW, Washington DC 20433. Please contact Raquel Luz, room N11-061, extension 39059 (48 pages with figures and tables).

The current economic crisis in Argentina is only partly the result of inappropriate domestic policies to cope with recent external shocks. Years of inappropriate policies have damaged Argentina's economy. Even if no external shocks had occurred, the country would still have to change the structure of production.

Argentina has had trouble sustaining a program of structural adjustment. Its experiences provide policymakers with some lessons in designing a sustainable program to achieve price stability and change the incentive system:

- Macroeconomic and trade policies must be consistent. Trade policy in particular must mesh with fiscal reforms, because cuts in public spending exert downward pressure on the real exchange rate.
- Labor relations and labor market institutions must be changed. If resources are to shift among industries and regions and wage flexibil-

ity is going to allow for an adequate labor market response, certain institutional changes are necessary — including the decentralization of wage bargaining and the elimination of traditional wage policies and general government intervention.

- If resources are to be shifted among regions and industries, rigidities and restrictions on labor mobility must be eliminated. More labor mobility means less pervasive government intervention in the form of restrictive regulations and spending patterns. It also means that the government must stop the use of deliberate policies of employment absorption.
- Prospective losers in adjustment programs can stop their implementation, so it is important that adjustment programs provide them with benefits. Public spending must be profoundly changed to reduce social costs during the transition period. This will require external financing and debt alleviation.

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The research program of the Macroeconomic Adjustment and Growth Division is looking at how the structure of key markets affects the effectiveness of adjustment programs. In particular, the research program on labor markets aims at identifying typical labor market policies in LDC's, specifically those affecting wage flexibility, labor mobility and institutional rigidities. Along these lines, the Division is preparing several country studies that will be later on integrated in a set of common findings allowing to develop a comparative study. This paper is part of this research effort.

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I. INTRODUCTION

Poor growth and macroeconomic imbalances have characterized Argentina's recent history. In combination with long run stagnation, the country has suffered chronic high inflation and deep cyclical fluctuations compounded by intractable balance of payment crises. Attempts to stabilize the economy and achieve a structural adjustment to restore sustained growth and basic balances have failed due to both a fragile political climate and inconsistent policies. The lack of adjustment has been partly due to anticipated negative short run labor market outcomes and, in turn, the existence of persistent economic imbalances over the long run has negatively affected wages, employment and the income distribution. This vicious circle transforms labor markets in the Argentinean economy into a crucial factor regarding both the need for and the feasibility of any significant macro reform.

This paper analyzes the performance of Argentina's labor markets in recent years. It aims at pointing out both the form in which labor market outcomes have been affected by a poor economic performance and the form in which reform efforts have been hindered by anticipated short run costs. We begin by providing economic background on the Argentine economy, particularly in recent years. In section III we discuss the structure and trends of labor markets and their connection with long term economic policies. In Section IV we analyze the role of labor markets in the adjustment process, and discuss the long run stop-and-go cycle of real wages growth prompted by the role of unions and government intervention. In section V we present a summary and conclusions.

II. LONG RUN ECONOMIC TRENDS AND SHORT RUN ADJUSTMENT POLICIES

II.1 Macroeconomic Policies, Economic Organization and Growth

Trade and macroeconomic policies followed after the Great Depression are crucial to explain Argentina's poor economic performance. During 1860-1929 an export-led growth strategy was followed, which included almost-free trade and appropriation of the benefits of trade according to the country's comparative advantages. After the Great Depression, adoption of an import substitution strategy was a key policy shift. Post-1945 government policies aimed at expanding domestic markets through overvalued exchange rates and high import tariffs, distorting the resource allocation and thwarting exports over the long run. Economic results of inward-oriented policies were deficient relative to those seen under the export-led strategy (Table 1)

Table 1
Different Strategies and Growth
(Real Growth in per capita GDP)

	<u>Yearly Average growth rate</u>
<u>Export-led strategy</u>	
1900-1929	1.5
<u>Inward-oriented strategy</u>	
1929-1958	0.9
1958-1987	0.7
<u>The entire period 1900-1987</u>	1.0

Source: IEERAL Data Base.

Macroeconomic policies affecting variables like the share of government consumption, public debt and the money stock in total income, as well as commercial (export taxes and import controls) and exchange rate policies, were

